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Page: 1

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PAGE 01 BOGOTA 15767 01 OF 02 092352Z RELEASED IN FULL
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	CIAE-00	CTME-00	DINT-05	DODE-00	EB-01	E-01	FRB-03
	H-01	INRE-00	INR-01	JUSE-00	L-03	NSAE-00	NSCE-00
	OES-09	OMB-01	OPIC-08	PM-01	PRS-01	SNP-01	SP-01
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LIMITED OFFICIAL USE SECTION 01 OF 02 BOGOTA 15767

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E.O. 12356: N/A
TAGS: ETRD, EINV, EPET, ENRG, ECON, CO
SUBJECT: OIL COMPANY VIEWS ON COLOMBIA'S INVESTMENT
CLIMATE FOR PETROLEUM SECTOR

1. SUMMARY: OCCIDENTAL PETROLEUM HOSTED A LUNCH
MEETING WITH ECONOFFS AND THE GOC VICE-MINISTER FOR
MINES AND ENERGY TO DISCUSS COLOMBIA'S INVESTMENT
CLIMATE AND TAX REGIME FOR THE PETROLEUM SECTOR.

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PAGE 02 BOGOTA 15767 01 OF 02 092352Z
OCCIDENTAL EXECUTIVES BASED MUCH OF THEIR ARGUMENTS
ON A STUDY COMPLETED TWO YEARS AGO COMPARING
COLOMBIA'S PETROLEUM LEGISLATION WITH THAT OF OTHER
COUNTRIES, WHICH CONCLUDED THAT COLOMBIA NEEDED TO
IMPROVE ITS INVESTMENT CLIMATE FOR EXPLORATION AND
DEVELOPMENT OF SMALL AND MEDIUM-SIZED OIL FIELDS.
OCCIDENTAL FEARS THAT OPTIMISM GENERATED FROM THE
RECENT DRILLING PROSPECTS IN THE CASANARE REGION
COULD TEMPT THE GOC INTO NEGOTIATING FOR LARGER
PARTICIPATION IN FUTURE PRODUCTION SHARING
AGREEMENTS. END SUMMARY.

2. OCCIDENTAL'S LOCAL MANAGER JOSEPH SNAPE HOSTED A

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Page: 1

UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: OSCAR J. OLSON
DATE/CASE ID: 30 OCT 2002 200201334

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Page: 2
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LUNCH MEETING WITH ECONOFFS AND THE VICE-MINISTER FOR MINES AND ENERGY IN ORDER TO DISCUSS THE RESULTS OF A STUDY DONE BY AN INTERNATIONAL CONSULTING FIRM COMPARING OIL INVESTMENT LEGISLATION WORLD-WIDE.

3. ACCORDING TO THE STUDY, COLOMBIA IS THE FIFTH WORST COUNTRY IN THE WORLD IN TERMS OF THE SHARE OF OIL PRODUCTION ALLOCATED TO GOVERNMENTS IN TERMS OF DIRECT PARTICIPATION, ROYALTIES, AND TAXES. THE OCCIDENTAL EXECUTIVES POINTED OUT THAT THE GOC TAKES ABOUT 80 PERCENT OF PETROLEUM REVENUES, BROKEN DOWN AS FOLLOWS: 50 PERCENT OF THE PRODUCTION GOES DIRECTLY TO ECOPETROL, THE STATE OIL COMPANY, AS PART OF THE ASSOCIATION CONTRACT; 10 PERCENT TO THE REGIONAL GOVERNMENTS AS ROYALTIES AND 20 PERCENT AS INCOME TAXES. LARGE PRODUCING FIELDS SUCH AS OXY'S CANO LIMON WERE STILL PROFITABLE UNDER THIS REGIME, BUT MEDIUM AND SMALL FIELDS WERE NOT, SINCE

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PAGE 03 BOGOTA 15767 01 OF 02 092352Z
EXPLORATION AND CERTAIN INFRASTRUCTURE EXPENDITURES WERE GENERALLY FIXED COSTS. OXY WAS WORRIED THAT THE GOC WOULD TRY TO INCREASE ITS PARTICIPATION IN ASSOCIATION CONTRACTS STILL FURTHER DUE TO THE PROSPECTS FOR LARGE OIL FIELDS IN THE CASANARE SUCH AS THE RECENTLY-ANNOUNCED CUISIANA DISCOVERY.

4. OXY EXECUTIVE SNAPE RECOUNTED THEIR EXPERIENCE IN 1982 WHEN THE GOC RENEGOTIATED EXISTING ASSOCIATION CONTRACT TERMS, PUSHING FOR A BIGGER PRODUCTION SHARE DUE TO THE OPTIMISM RESULTING FROM THE CANO LIMON FIND. AS A CONSEQUENCE, OIL COMPANIES HAVE NOT EXPLORED IN COLOMBIA AS INTENSELY AS IN OTHER COUNTRIES SINCE THAT TIME.

5. UNLESS THE CURRENT ASSOCIATION CONTRACT/ROYALTY REGIME WERE LIBERALIZED, OXY DOUBTS THAT COLOMBIA WILL BE ABLE TO ATTRACT INVESTORS TO EXPLOIT THE SMALL AND MEDIUM-SIZED FIELDS IN THE COUNTRY, PARTICULARLY THOSE LOCATED IN REMOTE REGIONS OF THE COUNTRY. CITING THE EXAMPLE OF THE RECENT DEPARTURE OF ELF-AQUITAINE FROM COLOMBIA, SNAPE SAID THAT THE ASSOCIATION CONTRACT AND TAX STRUCTURE IS ATTRACTIVE ONLY TO LARGE, PROFITABLE FIELDS SUCH AS CANO LIMON. WHEN THESE SAME CONDITIONS ARE APPLIED TO SMALL FINDS, THE INVESTMENT BECOMES UNPROFITABLE.

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Page: 2

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Document Number: 1991BOGOTA15767

Page: 3
Channel: n/a

6. SNAPE POINTED OUT THAT ONLY 30 PERCENT OF COLOMBIA HAS BEEN EXPLORED FOR PETROLEUM. HE URGED TOVAR TO RECOMEND TO MINISTER OF MINES AND ENERGY VERGARA NEW LEGISLATION TO STIMULATE FOREIGN LIMITED OFFICIAL USE

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PAGE 04 BOGOTA 15767 01 OF 02 092352Z
INVESTORS TO EXPLORE AND DEVELOP SMALL FIELDS, WHICH ARE MORE COMMON IN COLOMBIA.

7. OXY EXECUTIVES PROPOSED SEVERAL IDEAS TO LIBERALIZE THE SECTOR, INCLUDING ESTABLISHMENT OF A FLEXIBLE TYPE OF ASSOCIATION CONTRACT WITH DIFFERENT PERCENTAGES OF ECOPETROL PARTICIPATION DEPENDING ON REGION, SIZE OF FIELD, DISTANCE FROM PIPELINES OR PORT FACILITIES, ETC. ANOTHER PROPOSAL IS TO ELIMINATE ROYALTY PAYMENTS FOR INVESTMENTS IN REMOTE AREAS.

8. VICE MINISTER TOVAR ACKNOWLEDGED THAT THERE WERE PROBLEMS WITH THE CURRENT ASSOCIATION CONTRACT SYSTEM

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PAGE 01 BOGOTA 15767 02 OF 02 092352Z
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LIMITED OFFICIAL USE SECTION 02 OF 02 BOGOTA 15767

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Current Class: LIMITED OFFICIAL USE

Page: 3

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BUT THAT ANY NEW REGIME MUST HAVE TRANSPARENCY AND
EQUALITY. HE ELABORATED THAT TRANSPARENCY MEANT
EQUAL RULES FOR ALL, REJECTING THE CASE BY CASE
APPROACH WHICH COULD RESULT IN FAVORITISM AND
CORRUPTION.

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PAGE 02 BOGOTA 15767 02 OF 02 092352Z

9. COMMENT: THE DIALOGUE WAS VERY FRANK AND OPEN.
OXY EXECUTIVES WERE PLEASANTLY SURPRISED BY THE
POSITIVE ATTITUDE SHOWN BY THE GAVIRIA ADMINISTRATION
TO IMPROVE THE INVESTMENT CLIMATE IN ORDER TO ATTRACT
FOREIGN INVESTMENT IN THE PETROLEUM SECTOR. OXY
HOPES THAT FURTHER IMPROVEMENTS WILL BE MADE TO
INCREASE THE ATTRACTIVENESS OF INVESTING IN SMALL AND
MEDIUM-SIZED OIL FIELDS IN COLOMBIA. END COMMENT.

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Page: 4

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